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CROWS NEST
INDUSTRIES LIMITED

SEVENTY-EIGHTH ANNUAL REPORT 1974



CROWS NEST INDUSTRIES LIMITED

SEVENTY-EIGHTH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1974

Including Wholly-Owned Subsidiary Companies

Established 1897



CROWS NEST INDUSTRIES LIMITED

REPORT TO SHAREHOLDERS

Your Company's operations were seriously affected in 1974 by the depressed lumber market. As a result, the loss for the fiscal period was \$831,000 or \$1.11 per share. This, of course, is a tremendous change from the restated 1973 profits of \$2,737,000 or \$3.67 per share, before extraordinary items.

Lumber net returns for 1974 fell 20% from those achieved in 1973, while during the same period uncontrollable costs escalated 24%. Under such conditions your management has been primarily occupied with efforts to improve manufacturing techniques, and much has been accomplished.

In order to conform to sound accounting principles and practices we have written down the carrying value of log and lumber inventories to market. The resultant decline in assets totals \$1,047,000. Hopefully, future markets will allow a substantial recovery.

We are programming to operate under these difficult economic conditions as long as prudent business judgment will allow. Much depends on the market for our products.

Your Company has an interest in the Alberta oil industry through its subsidiary, The Crow's Nest Pass Oil and Gas Company, Limited. That company's activities provided a cash flow of \$800,000 in 1974 which helped to mitigate losses incurred in the Forest Product operation.

Crows Nest holds slightly more than 43,000 acres of coal licences on Crown land in the Elk Valley and Flathead areas of British Columbia. The maintenance costs of these licences have been increased considerably under the new provincial Coal Act. Credits for extensive exploration work done previously are available to offset some of these carrying costs.

The 1968 agreement between Crows Nest and Kaiser Resources Ltd. provides for the return of approximately 40,000 acres of coal-bearing fee lands on or before February 29, 1976. At

present there is no indication of which lands will revert but it is certain that valuable future benefits will result. Following that Crows Nest Industries will once again become the largest holder of coal property rights in the Fernie coal basin.

The primary coal licence property at Line Creek continues to be most interesting as a potential major metallurgical coal opportunity. Further evaluation of this area has just been completed and its economic viability substantiated. Presently mine design work is taking place in a modest but meaningful way.

Meanwhile, an exploration program in the Corbin area, on which two licences are held, has revealed additional coal reserves. Engineering work indicates potential for a small scale mining operation.

As 1977 approaches it should be remembered that in April of that year the Company will start receiving a payment of 50¢ per short ton on all coal sold and shipped by Kaiser Resources Ltd. from the property subject to the 1968 transaction. This will provide an additional revenue to Crows Nest, based on Kaiser's present production, of over \$2½ million per year until a total of \$34 million has been received. No provision has been made for this in the financial accounts other than through a note to the statements.

We expect 1975 to reflect increased emphasis on participation in the prosperous coal industry.

We are well aware of the economic situation at home and abroad. The Company will be managed accordingly.

Thomas F. Gleed
Chairman

M. Bruce Pepper
President



FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1974, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 28, 1975

CLARKSON, GORDON & CO.,
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED

(Incorporated under the laws of Canada)

AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1974 AND 1973

ASSETS

CURRENT:

	<u>1974</u>	<u>1973</u>
Cash and term deposits	\$ 1,102,000	\$ 2,921,000
Accounts receivable	849,000	1,188,000
Inventories (Note 2)	1,801,000	3,328,000
Prepaid expenses (Note 3)	490,000	83,000
	<u>4,242,000</u>	<u>7,520,000</u>

FIXED:

Forest products —		
Timber cutting rights, roads and real estate		
less accumulated depletion of \$2,426,000		
(1973 — \$2,805,000)	1,741,000	1,960,000
Plant and equipment less accumulated		
depreciation of \$3,956,000		
(1973 — \$3,459,000)	5,848,000	5,911,000
Petroleum and natural gas —		
Acquisition and productive development costs		
less accumulated depletion of \$2,673,000		
(1973 — \$2,596,000)	696,000	752,000
Production equipment less accumulated		
depreciation of \$1,451,000		
(1973 — \$1,356,000)	386,000	419,000
Coal —		
Acquisition, exploration and development costs	1,699,000	1,582,000
	<u>10,370,000</u>	<u>10,624,000</u>

OTHER:

Deferred costs (Note 4)	1,290,000	1,295,000
Notes receivable (Note 5)	122,000	122,000
Deposits and mortgages receivable	104,000	103,000
	<u>1,516,000</u>	<u>1,520,000</u>
	<u>\$16,128,000</u>	<u>\$19,664,000</u>

See accompanying notes.

LIABILITIES**CURRENT:**

	<u>1974</u>	<u>1973</u>
Accounts payable and accrued charges	\$ 558,000	\$ 1,620,000
Income and other taxes payable	195,000	797,000
	<u>753,000</u>	<u>2,417,000</u>
DEFERRED INCOME TAXES	<u>422,000</u>	<u>1,083,000</u>

SHAREHOLDERS' EQUITY:

Capital —

Authorized —

12,000 6% Cumulative Redeemable Convertible
Preferred Shares of \$25 par value each

1,187,950 common shares of \$8 par value each

Issued —

4,884 Series "A" preferred shares (Note 5)	122,000	122,000
745,872 common shares	5,968,000	5,968,000
Contributed surplus	567,000	567,000
Retained earnings	8,296,000	9,507,000
	<u>14,953,000</u>	<u>16,164,000</u>

On behalf of the Board:

T. F. GLEED, Director

F. D. PRATT, Director

\$16,128,000

\$19,664,000

CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
For the years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Sales:		
Forest products	\$ 9,216,000	\$17,724,000
Petroleum and natural gas	1,320,000	989,000
	<u>10,536,000</u>	<u>18,713,000</u>
Expenses:		
Operating	9,256,000	11,593,000
Write down of forest products inventories to net realizable value	1,047,000	—
Exploration	34,000	23,000
General and administrative	744,000	658,000
Depreciation	861,000	813,000
Depletion	468,000	864,000
	<u>12,410,000</u>	<u>13,951,000</u>
Operating income (loss)	<u>(1,874,000)</u>	<u>4,762,000</u>
Other income:		
Interest and other income	275,000	285,000
Gain on sale of property	20,000	105,000
	<u>295,000</u>	<u>390,000</u>
Income (loss) before income taxes	<u>(1,579,000)</u>	<u>5,152,000</u>
Income taxes (recovery) (Note 7)	<u>(748,000)</u>	<u>2,415,000</u>
Income (loss) before extraordinary item	<u>(831,000)</u>	<u>2,737,000</u>
Extraordinary item:		
Income tax reduction arising from loss carry-forward	<u>—</u>	<u>1,210,000</u>
Net income (loss) for the year	<u>(831,000)</u>	<u>3,947,000</u>
Retained earnings, beginning of year	9,507,000	6,311,000
Dividends —		
Preferred	(7,000)	(5,000)
Common	(373,000)	(746,000)
Retained earnings, end of year	<u>\$ 8,296,000</u>	<u>\$ 9,507,000</u>
Earnings per share:		
Income (loss) before extraordinary item	<u>(\$1.11)</u>	<u>\$3.67</u>
Net income (loss)	<u>(\$1.11)</u>	<u>\$5.29</u>

See accompanying notes.

CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Source of funds:		
Funds provided from (used in) operations —		
Net income (loss) for the year	\$ (831,000)	\$ 3,947,000
Add items not affecting funds		
Depreciation and depletion	1,329,000	1,677,000
Deferred income taxes	(661,000)	522,000
Gain on sale of property	(20,000)	(105,000)
	<u>(183,000)</u>	<u>6,041,000</u>
Proceeds from sales of fixed assets	67,000	224,000
Preferred shares issued	—	122,000
Other	4,000	(37,000)
	<u>(112,000)</u>	<u>6,350,000</u>
Application of funds:		
Purchase of fixed assets	1,122,000	2,065,000
Dividends	380,000	751,000
	<u>1,502,000</u>	<u>2,816,000</u>
Increase (decrease) in working capital	(1,614,000)	3,534,000
Working capital, beginning of year	5,103,000	1,569,000
Working capital, end of year	<u>\$ 3,489,000</u>	<u>\$ 5,103,000</u>

See accompanying notes.

CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1974

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of all the subsidiaries.

(b) Inventories

Inventories are stated at the lower of average cost and net realizable value. Average cost includes laid down costs of materials as well as applicable direct labour and overhead. Net realizable value consists of anticipated sales values less estimated costs of completion and disposal.

(c) Forest products assets

The forest products fixed assets are valued at cost less accumulated depreciation and depletion. Depreciation is based on the estimated useful lives of the assets and is provided on the straight-line method for the sawmill and the reducing balance method for other plant and equipment. Depletion is provided on the unit of production method based on estimated reserves of timber.

(d) Petroleum and natural gas assets

Acquisition costs of properties and productive development costs are capitalized. The carrying costs of productive properties, exploration costs and non-productive development costs of petroleum and natural gas properties are expensed as incurred. Depletion is provided on the unit of production method based on estimated reserves of oil and gas.

(e) Coal properties

Acquisition, exploration, development and carrying costs of coal properties are capitalized except for costs applicable to unevaluated properties which are written off as incurred.

(f) Deferred costs

Costs applicable to the development of projects are deferred until such time as the related projects are completed or abandoned. At that time such costs are capitalized or expensed as appropriate.

2. INVENTORIES

	<u>1974</u>	<u>1973</u>
Logs	\$1,156,000	\$2,424,000
Lumber	346,000	615,000
Materials and supplies	299,000	289,000
	<u>\$1,801,000</u>	<u>\$3,328,000</u>

3. PREPAID EXPENSES

Prepaid expenses at December 31, 1974 include costs of primary access road construction amounting to \$453,000 which will offset future crown stumpage.

4. DEFERRED COSTS

Deferred costs consist primarily of expenditures incurred in connection with a proposed railway. Although the Company was estopped from building the railway, these costs have continuing value in view of the potential future development of coal and other resource properties in the area.

5. NOTES RECEIVABLE AND PREFERRED SHARES

The notes receivable are due from officers and employees and are secured by 4,884 Series "A" preferred shares issued in 1973 under an Executive Share Purchase Plan. The Series "A" preferred shares are convertible into common shares at the rate of ten common shares for eleven preferred shares.

6. PAYMENTS ARISING FROM SALE OF COAL PROPERTIES IN 1968

As part of the consideration for the sale of the Company's coal properties to Kaiser Steel Corporation in 1968, the Company is entitled to receive payments of 50 cents per ton of coal produced and shipped after January 1, 1977 from the properties sold. These payments are limited to an aggregate of \$34 million and will be included in income as received.

7. INCOME TAX ASSESSMENT

As a result of an income tax assessment received during the year, the 1973 income tax provision was increased by \$155,000 (20¢ per share). The 1973 amounts included in the accompanying financial statements have been restated accordingly.

8. STATUTORY INFORMATION — CANADA CORPORATIONS ACT

Remuneration of ten directors	\$ 25,000
Remuneration of five officers	\$173,000

Two officers are also directors.




CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

TEN YEAR SUMMARY OF COMPARATIVE HIGHLIGHTS

	1974	1973	1972
Sales of all products	\$10,536,000	\$ 18,713,000	\$12,615,000
Income (loss) before extraordinary items	(831,000)	2,737,000	1,697,000
Extraordinary items	—	1,210,000	792,000
Net income (loss) for year	(831,000)	3,947,000	2,489,000
Income (loss) per common share			
From operations	(1.11)	3.67	2.28
Extraordinary items	—	1.62	1.06
Total	(1.11)	5.29	3.34
Common shareholders' equity	14,831,000	16,042,000	12,846,000
Equity per common share	19.88	21.51	17.22
Cash dividends declared (common)	373,000	746,000	373,000
Dividends per common share	50¢	\$1.00	50¢
Depreciation and depletion	1,329,000	1,677,000	1,339,000
Capital expenditures	1,351,000	2,065,000	1,553,000
Working capital	3,489,000	5,103,000	1,569,000
Production—lumber (fbm)	76,160,334	117,685,885	99,416,526
Production—oil (bbls)	198,873	259,254	329,917
Production—coal, coke and breeze (tons)	—	—	—
Number of employees at year-end	178	391	404
Common shares at year-end			
Number outstanding	745,872	745,872	745,872
Percentage held by—Canadians	45%	39%	41%
—Other	55%	61%	59%
Number of shareholders at year-end			
Canadian	235	235	246
Other	229	237	228

1971	1970	1969	1968	1967	1966	1965
8,953,000	\$12,382,000	\$11,189,000	\$12,002,000	\$15,966,000	\$14,071,000	\$13,073,000
914,000	(2,726,000)	(1,515,000)	479,000	381,000	469,000	489,000
273,000	(2,513,000)	—	7,020,000	—	86,000	597,000
1,186,000	(5,239,000)	(1,515,000)	7,500,000	381,000	555,000	1,086,000
1.22	(3.65)	(2.07)	.66	.52	.65	.68
.37	(3.37)	—	9.59	—	.12	.83
1.59	(7.02)	(2.07)	10.25	.52	.77	1.51
10,730,000	9,730,000	15,079,000	17,142,000	10,103,000	10,236,000	10,147,000
14.39	13.04	20.62	23.45	13.91	14.12	14.12
186,000	110,000	548,000	548,000	544,000	541,000	552,000
25¢	15¢+2%stk	75¢	75¢	75¢	75¢	75¢
1,245,000	1,157,000	863,000	637,000	1,135,000	1,319,000	1,185,000
720,000	1,262,000	5,425,000	2,395,000	1,090,000	1,804,000	2,849,000
(529,000)	(11,691,000)	(8,573,000)	(766,000)	473,000	888,000	1,246,000
92,326,957	91,822,345	53,823,668	39,489,957	47,831,535	68,813,323	68,375,793
351,800	344,593	290,846	233,582	174,086	170,008	185,225
—	—	—	167,617	1,105,387	1,009,003	924,531
394	420	428	344	818	830	935
745,872	745,872	731,175	731,175	726,550	724,675	718,425
41%	41%	40%	26%	26%	30%	24%
59%	59%	60%	74%	74%	70%	76%
261	258	255	252	305	364	311
222	237	228	261	253	275	314



CORPORATE INFORMATION

OFFICERS

THOMAS F. GLEED, Chairman
M. BRUCE PEPPER, President
J. J. CRABB, Vice President, Exploration
BRIAN C. PINNELL, Secretary-Treasurer,
Comptroller
NORMAN S. DENMARK, General Manager,
Forest Products

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

SHARE LISTING

TORONTO STOCK EXCHANGE — ticker
abbreviation CNC

AUDITORS

CLARKSON, GORDON & CO., Calgary

BANKERS

BANK OF MONTREAL
CANADIAN IMPERIAL BANK OF COMMERCE
SEATTLE-FIRST NATIONAL BANK

OPERATIONS

HEAD OFFICE — Fernie, British Columbia
SAWMILL — Elko, British Columbia

SUBSIDIARY COMPANIES

CROW'S NEST PASS ELECTRIC LIGHT
& POWER COMPANY LIMITED
CROWS NEST FOREST PRODUCTS COMPANY
LIMITED
THE CROW'S NEST PASS OIL & GAS
COMPANY, LIMITED
CROWS NEST PLYWOODS LIMITED
EAST KOOTENAY LUMBER COMPANY
LIMITED
E. C. LETCHER LUMBER COMPANY LIMITED
FERNIE EQUIPMENT COMPANY, LIMITED
GOLD CREEK TIMBER COMPANY LIMITED
KNIGHT LUMBER COMPANY LIMITED
KOOTENAY AND ELK RAILWAY COMPANY
LINE CREEK COAL COMPANY LTD.
THE MORRISSEY, FERNIE & MICHEL
RAILWAY COMPANY
ST. MARYS LUMBER CO. LTD.
TRANSPAC CORPORATION



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FOR THE YEAR ENDED DECEMBER 31, 1974

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Established 1897